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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



LOGISTICS AND COMMUNICATIONS DIVISION 215

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Dear Mr. Secretary:

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At the request of the Chairman, Subcommittee on Priorities and Economy in Government, Joint Economic Committee, we reviewed the use of Government-owned equipment by certain large contractors on commercial and defense work. During the course of this review, we noted several weaknesses in the Air Force's administration of facilities contracts F33657-69-C-0727 and F33657-69-C-0534 at the Lockheed-Georgia Company a division of Lockheed Aircraft Corporation.

The acquisition cost of Government-owned real property at Air Force Plant No. 6, Marietta, Georgia, amounts to about \$80 million and is covered by facilities contract-0727. The contract also covers about \$37 million of Government-owned plant equipment at Plant No. 6 and at several plants leased by Lockheed. The acquisition cost of Government-owned plant equipment at a Lockheed leased plant in Chattanooga, Tennessee, amounts to about \$2 million. This equipment is covered under facilities contract-0534.

From January 1968 through June 1971, Lockheed paid about \$980,000 rent under the two contracts for use of Government-owned property on commercial aircraft programs such as the L-1011 Tristar and the Jetstar. Contractors are permitted to use Government-owned property for commercial work when they obtain advance written authorization and pay rent in accordance with the methods prescribed in the Armed Services Procurement Regulation (ASPR) 7-702.12.

To determine gross rent, the cost of the personal property is multiplied by the appropriate percentage rates shown in the ASPR. Gross rent is reduced by a credit for use which has been specifically authorized in advance as rent-free. Generally, rent-free use is that part which is applicable to work on Government contracts and subcontracts. The measurement unit for determining use can be direct labor hours, sales, machine hours, or other equitable measures.

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INEQUITABLE RENT CREDIT

Equipment

To compute its rent credit Lockheed estimated the use of Government-owned equipment based on the ratio of Government direct labor hours to commercial direct labor hours for each of four functional areas--direct manufacturing, indirect manufacturing, engineering, and general and administrative.

These methods generally produce equitable rental rates if the Government-owned equipment and Government workloads are similar in the various departments which make up a functional area. We found, however, that equipment concentrations and Government versus commercial workloads varied considerably in the functional areas, and within the departments in the functional areas, at Plant No. 6. Therefore, there is no assurance that the use of the labor hours method at the functional level will produce equitable rent-credit computations. For example, when we computed the rent for the month of March 1971 at the departmental level in each of the four functional areas, we found the rent would have been \$17,099, or \$6,418 more than the \$10,681 paid by Lockheed.

Real property

For its rent credit, Lockheed estimated usage by classifying the space associated with Government-owned real property as Government, commercial, or joint use. In computing a sharing ratio, only Government and commercial space is considered, the joint use space is excluded.

For example, in March 1971 Lockheed reported that there was 5,882,170 square feet of space in Government-owned buildings of which 3,642,363 was classified as Government and 19,070 as commercial, resulting in a sharing ratio of 99.4 percent to 0.6 percent respectively. The remaining 2,220,737 square feet, which accounted for 38 percent of all building space, was classified as joint space and was not considered in computing the ratio.

We believe it is inappropriate to allocate rent for Government real property on the basis of a formula which excludes 38 percent of the total square footage. Alternate methods for determining a ratio of Government use to commercial use are available. Direct labor hours, for example, are often used as a unit of measurement for determining the amount of Government use versus commercial use for the purpose of computing rent credits. In view of the fact that Lockheed cannot identify the use for 38 percent of the real property, we believe direct labor hours would be a good alternative to assure equitable allocation of rent. When we computed the rent for the month of March 1971 using direct labor hours as a basis, the rent totaled \$12,608, or \$10,716 more than the \$1,892 paid by Lockheed.

IMPROPER AUTHORIZATION

Lockheed used Government-owned industrial plant equipment on its L-1011 Tristar program for substantial periods of time without obtaining advance written authorization from the Air Force contracting officers, as required by ASPR 13-405. The periods involved:

<u>Contract</u>	<u>Period</u>	<u>No. of months</u>
-0727	6/14/69 to 8/26/71	26
-0534	7/ 1/69 to 7/21/71	24

During July and August 1971 the contracting officers gave Lockheed retroactive written authorization to use the equipment. It should be noted, however, that Lockheed periodically informed the contracting officers, in statements accompanying the rental payments, that Government equipment was being used on the L-1011. Nevertheless, we believe these practices are ineffective and do not ensure adequate control over the use of Government-owned equipment as intended by the ASPR.

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We are bringing these matters to your attention for consideration in future negotiations and administration of rental agreements under these facilities contracts. We would appreciate receiving your comments on the above, including advice on actions taken or planned. If you desire, we will be glad to discuss these matters in greater detail with you or your representatives.

Sincerely yours,



J. K. Fasick
Director

The Honorable
The Secretary of the Air Force